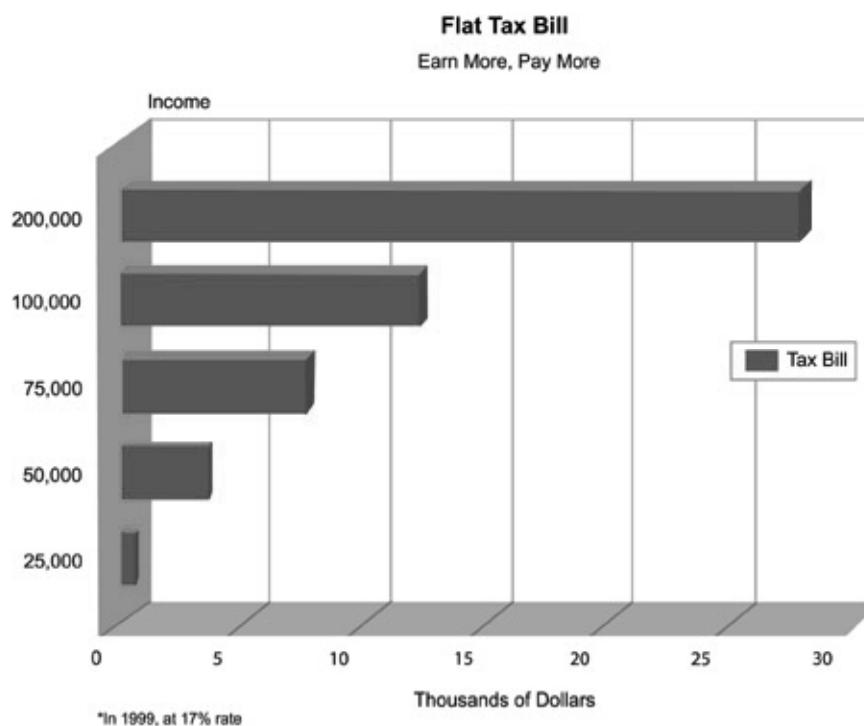


Two tax proposals to replace our traditional progressive income tax system have been presented to Congress. Both proposals feature proportional tax plans. Would they work? Would enough revenue be generated to pay the nation's bills? Would citizens be treated fairly? Consider all sides before you decide.



The Armey-Shelby Flat Tax (H.R.1040)

The Armey-Shelby flat tax (H.R.1040) would replace our progressive federal income tax with a proportional tax of 17 percent. Both individuals and businesses would pay the 17 percent, and no deductions or credits would be allowed. The only income that would not be taxed would be a personal exemption that every taxpayer would receive. For a family of four, no tax would be paid on the first \$35,400 of income.

Those in favor of the flat tax believe that it is fairer than the present system because everyone is taxed at the same rate. They stress that the flat tax would be so simple that taxpayers could file their taxes on a postcard-sized form. Proponents also insist that the economy would not only prosper but would grow under the flat tax, although tight spending controls would be placed on the budget.

Supporters believe that the flat tax, although proportional in principle, is progressive in practice. Because of the high family exemption, the more taxpayers earn, the larger the share of income they pay in tax. As illustrated in the chart, a family of four with an income of \$25,000 would not

pay tax because they are under the \$35,400 exemption. A family of four with an income of \$50,000 would pay only 6 percent of its earnings because of the exemption; that is, it is paying only on the amount remaining after \$35,400 is subtracted from the \$50,000. A family of four with an income of \$200,000, on the other hand, would pay 14 percent of its earnings under the flat tax.

Fair Tax

A completely different proposal for replacing the existing federal income tax is a national sales tax known as the Fair Tax. Its proponents explain that their Fair Tax is a voluntary “consumption” tax. The idea behind their plan is that the more a person buys, the more tax that individual pays. The less the person buys, the less taxes that person pays.

Although the tax is proportional in principle, supporters see it as progressive in the belief that wealthy people spend more money than people at other income levels do. They would make the tax less regressive to low-income groups by not taxing necessities. All income levels would also receive a rebate based on the number of people in the household. Under the Fair Tax, there would no longer be corporate taxes, business-to-business taxes, self-employment taxes, taxes on investments or savings, or estate and inheritance taxes.